

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
MARCH 28, 2014, BOARD MEETING

BOARD MEMBERS PRESENT: Drew Wrigley, Lt. Governor, Chair
Mike Sandal, Vice Chair
Clarence Corneil, Parliamentarian, TFFR Board
Lance Gaebe, Land Commissioner
Mike Gessner, TFFR Board
Rob Lech, TFFR Board
Howard Sage, PERS Board
Kelly Schmidt, State Treasurer
Cindy Ternes, Workforce Safety & Insurance designee
Tom Trenbeath, PERS Board

BOARD MEMBERS ABSENT: Adam Hamm, Insurance Commissioner

STAFF PRESENT: Connie Flanagan, Fiscal & Investment Op Mgr
Bonnie Heit, Assistant to the SIB
David Hunter, ED/CIO
Fay Kopp, Deputy ED/CRO
Cody Schmidt, Compliance Officer
Darren Schulz, Deputy CIO

OTHERS PRESENT: Jeff Engleson, Deputy Land Commissioner
Jan Murtha, Attorney General's Office

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, March 28, 2014, at the State Capitol, Peace Garden Room, 600 E Boulevard, Bismarck, ND.

A quorum was present for the purpose of conducting business.

Commissioner Hamm was absent attending a National Association of Insurance Commissioners meeting.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE MARCH 28, 2014, MEETING.

AYES: COMMISSIONER GAEBE, TREASURER SCHMIDT, MR. SANDAL, MS. TERNES, MR. GESSNER, MR. TRENBEATH, MR. LECH, MR. SAGE, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM, MR. CORNEIL

MINUTES:

The minutes were considered from the February 28, 2014, meeting.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE FEBRUARY 28, 2014, MINUTES AS WRITTEN.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MR. SAGE, MS. TERNES, TREASURER SCHMIDT, MR. LECH, MR. TRENBEATH, MR. SANDAL, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM, MR. CORNEIL

INVESTMENTS:

Asset and Performance Review - Mr. Hunter stated the market value of the SIB client assets was nearing \$8.7 billion as of February 28, 2014. During the last six months of 2013, client assets under management grew by \$1.1 billion and exceeded \$8.5 billion at year-end; the Legacy Fund assets increased by over 47% primarily due to tax collections; and the Pension Trust and Insurance Trust both had gains of 10% and 3.5% respectively due to net investment income.

During the last 1, 3, and 10 year periods ending December 31, 2013, the Pension Trust generated investment returns which were in the second quartile of Callan Associates public fund sponsor database primarily due to manager selection and active management.

During the last 1, 3, and 5 year periods ending December 31, 2013, the Insurance Trust generated investment returns which were in the first or second quartile of Callan Associates public fund sponsor database on an asset allocation adjusted basis, also primarily due to manager selection and active management.

Staff also provided updates on relationship reviews, future fee savings, and upcoming projects.

Service Review - Staff conducted an on-site visit with Callan Associates on March 20, 2014, and reviewed the search process Callan will utilize when searching for an additional emerging market equity manager for the SIB program. Staff is planning to bring at least three firms before the SIB for their consideration.

Mr. Hunter also reviewed a working draft which defines each manager's mandate and the percentage of assets managed in the SIB program; i.e. market value of the assets managed, returns, standard deviation and risk, excess returns, and fees.

Watch List - Mr. Hunter and Mr. Schulz conducted an on-site review with Western Asset Management Company (WAMCO) on March 19, 2014, to discuss the Securities and Exchange Commission/US Department of Labor settlements and the turnover in personnel who have oversight of the SIB's mortgage backed securities mandate. After their review with WAMCO and taking into consideration Callan Associates views, staff recommends a search be conducted for the mortgage backed securities mandate because of the recent regulatory settlement and turnover in senior personnel who oversee the mandate.

Staff also met with PIMCO representatives on March 19, 2014, and recommend that all PIMCO strategies remain on the watch list because of significant turnover in personnel at the senior level.

Staff and Treasurer Schmidt also met with Loomis Sayles on March 11, 2014, and recommend the firm remain on the watch list until short-term performance improves.

The Board recessed at 9:50 am and reconvened at 10:05 am

Custody Review - Mr. Hunter informed the SIB staff has elected to retain Callan to conduct an in-depth trust, custodial, and securities lending review of The Northern Trust to confirm service standards and fee levels. Staff looked at five firms and opted to retain Callan primarily because they are considered an industry leader in this field and also because of their familiarity with the operations of the SIB program.

GOVERNANCE:

Staffing Update - Mr. Hunter provided an update on office staff. Mr. Gary Vetter, Supervisor of Information Systems, will retire on March 31, 2014, and Mr. Rich Nagel has been promoted to the position effective April 1, 2014. Candidates were interviewed for Mr. Nagel's previous position, Data Processing Coordinator III, and Mr. Hunter stated he is realizing the market to attract and retain qualified candidates is challenging at the current levels the Retirement and Investment Office (RIO) is offering. Staff will look at options to address these issues when developing their budget for the next biennium.

The Audit Supervisor position was reposted and re-readvertised in March 2014 with the closing date scheduled for March 18, 2014.

Audit Committee Update - Mr. Gessner updated the SIB on the Audit Committee's activities from their February 28, 2014, meeting. As of February 28 2014, 14 audits have been completed, two are in progress, two not in compliance reviews have been completed, and notifications to five more districts were sent out.

The Audit Supervisor position has been vacant since July 2013 and the audit 2013/14 work plan is being adjusted as necessary. The Audit Division, in the interim, is addressing activities that are of most importance to the SIB Audit Committee, RIO management, and the external auditors.

Meetings are also being coordinated between RIO staff, the Public Employees Retirement System (PERS), and the State Auditor's Office representatives to review options and timeframes for implementing the new pension reporting standards, GASB Statements No. 67 and No. 68. The entities are working through the process in a joint effort, where appropriate, in order to reduce costs and provide consistency for state and local governments, school districts, and other Teachers' Fund for Retirement (TFFR) and PERS participating employers.

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. LECH TO ACCEPT THE AUDIT COMMITTEE'S ACTIVITY REPORT.

AYES: MR. SAGE, MR. SANDAL, MR. CORNEIL, MR. GESSNER, MR. LECH, MR. TRENBEATH, MS. TERNES, COMMISSIONER GAEBE, TREASURER SCHMIDT, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM

Litigation Monitoring - Ms. Murtha reviewed with the SIB her findings on what other public pension plans are doing regarding board education and the firms retained for securities litigation monitoring. Ms. Murtha will be providing education on securities litigation monitoring to the SIB at their April 25, 2014, meeting.

Callan College - Mr. Hunter provided dates on when Callan Associates will be conducting their "Callan College" 2014 sessions. Discussion followed on having Callan representative's present portions of the "Callan College" to the full SIB at one of their regularly scheduled meetings. Mr. Hunter will visit with Callan regarding conducting sessions in Bismarck and will report back to the SIB.

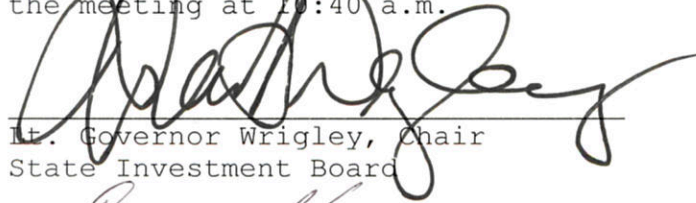
OTHER:

The next SIB meeting is scheduled for April 25, 2014, at 8:30 am at the Peace Garden Room, State Capitol, Bismarck, ND.

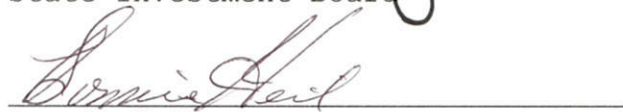
The next SIB Audit Committee meeting is scheduled for May 23, 2014, at 1:00 pm at the Peace Garden Room, State Capitol, Bismarck, ND.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 10:40 a.m.



Lt. Governor Wrigley, Chair
State Investment Board



Bonnie Heit
Assistant to the Board